
MONTHLY LEGISLATIVE UPDATE

To: Orange County Sanitation District
From: Townsend Public Affairs
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STATE UPDATE

California has moved deeper into the second year of its two-year legislative session, with attention focused on key procedural deadlines, the road to the 2026 election cycle, and an eventual transition from Governor Gavin Newsom's administration. The February 20 bill introduction deadline will mark another major milestone as lawmakers unveil new proposals for the final year of the session.

At the same time, the Legislature and Administration continue budget negotiations amid a growing deficit, while advancing policy priorities related to housing production, affordability, and public health. Policymakers are also working through the implementation of prior reforms and navigating ongoing fiscal and federal policy pressures, setting the stage for a consequential close to the session.

February 20 also marked the deadline for the introduction of new legislation for the 2026 legislative session, and lawmakers brought forward a significant number of proposals in advance of the cutoff.

On February 24, the Assembly Water, Parks, and Wildlife Committee held an informational hearing focused on the efficiency of large Commercial, Industrial, and Institutional (CII) water users, underscoring the Legislature's continued attention to urban conservation and long-term water demand strategies. The hearing examined existing efficiency requirements, implementation and reporting challenges, and potential opportunities to enhance conservation among high-volume users. Lawmakers reviewed how improved CII performance aligns with broader statewide water resilience objectives and compliance with established urban water use standards.

FROM DROUGHT TO RECOVERY: STORM IMPACTS HIGHLIGHT STATE'S WATER RESILIENCE INVESTMENTS

Governor Newsom recently [announced](#) that winter storms have significantly improved California's water conditions, with the U.S. Drought Monitor reporting that the state is no longer in drought, and highlighted this development as evidence of progress under California's broader water resilience strategy.

California officials announced that recent winter storms have substantially improved statewide hydrologic conditions, with the U.S. Drought Monitor indicating that the state is no longer experiencing drought conditions. The announcement was framed within the Administration's broader Water Resilience Strategy, which emphasizes long-term system reliability in the face of increasingly volatile precipitation patterns.

The Governor's Office highlighted strong reservoir recovery, improved snowpack levels, and enhanced groundwater recharge resulting from successive storm events. State agencies credited ongoing investments in stormwater capture, groundwater sustainability implementation under Sustainable Groundwater Management Act, and expedited water infrastructure projects for improving the state's ability to retain and manage high-flow events. Officials also pointed to continued progress on storage expansion, conveyance modernization, water recycling, and conservation initiatives designed to reduce structural vulnerability during dry cycles.

Importantly for local and regional water suppliers, the Administration underscored that current hydrologic improvements do not eliminate long-term supply challenges. The state reiterated that climate-driven variability—characterized by more intense storms and longer dry periods—requires continued focus on system flexibility, diversified portfolios, and accelerated project delivery. Agencies were encouraged to leverage wet-year conditions to maximize recharge, advance capital projects, and strengthen drought contingency planning.

While the near-term outlook reflects improved supply conditions, the broader policy message remains centered on resilience: maintaining momentum on infrastructure investments, groundwater sustainability, water use efficiency, and interagency coordination to ensure reliability during future drought periods.

PROPOSED AMENDMENTS TO CAP-AND-INVEST REGULATIONS

The California Air Resources Board has released proposed amendments to the state's Cap-and-Invest program, implementing recent legislation that extends the program through 2045. The proposal maintains a declining, economy-wide emissions cap aligned with California's long-term climate and carbon-neutrality goals, while still supporting a market-based structure of allowance auctions, trading, and compliance obligations. Auction proceeds will continue to support the Greenhouse Gas Reduction Fund and related climate investments outlined in the recent reauthorization.

Notable regulatory changes include updated allowance budgets for post-2026 compliance periods, revisions to cost-containment tools such as price ceilings and allowance reserves, and technical updates to market participation and compliance rules. The proposal also refines allowance allocation methodologies, particularly for industrial sources, to address emissions leakage and competitiveness concerns, while incorporating adjustments related to biomass fuels, limited exemptions, and specific technologies. Updates to the offset program are intended to strengthen environmental integrity through revised eligibility, monitoring, and verification requirements.

The release of the amendments evaluates economic, environmental, and equity impacts through a regulatory impact analysis, concluding that the amendments will deliver sustained greenhouse gas reductions while managing cost and competitiveness impacts on businesses and ratepayers. With upcoming auctions, the proposed amendments seem to signal a more modest approach to temper markets while the state allocates the first round of funding post-reauthorization. TPA continues to engage on this program for potential innovative biosolids management funding for OC San.